

CITY OF BALTIMORE

PARKING FACILITIES FUND

FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED

JUNE 30, 2002

(WITH REPORT OF INDEPENDENT AUDITORS THEREON)

CITY OF BALTIMORE  
PARKING FACILITIES FUND  
FINANCIAL STATEMENTS  
FISCAL YEAR ENDED JUNE 30, 2002

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## CITY OF BALTIMORE

MARTIN O'MALLEY

Mayor

### DEPARTMENT OF AUDITS

Room 321, City Hall

Baltimore, Maryland 21202



One North Charles

Baltimore, Maryland 21201

### Report of Independent Auditors

January 27, 2003

The Mayor, City Council, Comptroller and  
Board of Estimates of the City of Baltimore, Maryland

We have jointly audited the accompanying financial statements of the Parking Facilities Fund of the City of Baltimore, Maryland, as of and for the year ended, June 30, 2002, as listed in the table of contents. These financial statements are the responsibility of the City of Baltimore, Maryland's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Parking Facilities Fund and do not purport to, and do not present fairly the financial position of the City of Baltimore, Maryland, as of June 30, 2002, and the changes in its financial position and its cash flows, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, the City has implemented a new financial reporting model, required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as modified by GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, as of July 1, 2001.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Parking Facilities Fund of the City of Baltimore, Maryland, as of June 30, 2002, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Yovonda D. Brooks  
City Auditor  
Department of Audits

Ernst & Young LLP

**CITY OF BALTIMORE**  
**Parking Facilities Fund**  
**Statement of Net Assets**  
**June 30, 2002**  
(Expressed in Thousands)

Assets:

Current assets:

Cash and cash equivalents.....	\$ 14,249
Accounts receivable:	
Accrued interest receivable.....	365
Working capital advances.....	50
Current restricted assets:	
Cash and cash equivalents.....	72,402
Investments.....	4,382
Total current assets.....	<u>91,448</u>

Noncurrent assets:

Restricted assets:

Mortgages receivable.....	43,039
Capital assets, net.....	87,881
Unamortized bond issuance costs.....	3,395
Total noncurrent assets.....	<u>134,315</u>
Total assets.....	<u>225,763</u>

Liabilities:

Current liabilities:

Accounts payable and accrued liabilities.....	466
Accrued interest payable.....	3,381
Due to other funds.....	4,124
Accounts payable from restricted assets.....	1,534
Revenue bonds payable.....	3,690
Total current liabilities.....	<u>13,195</u>

Noncurrent liabilities:

Revenue bonds payable.....	189,964
Total noncurrent liabilities.....	<u>189,964</u>
Total Liabilities.....	<u>203,159</u>

Net Assets:

Restricted for:

Debt service.....	20,812
Future capital expenditures.....	54,962
Unrestricted (deficit).....	(53,170)
Total net assets.....	<u>\$ 22,604</u>

See notes to financial statements.

**CITY OF BALTIMORE**  
**Parking Facilities Fund**  
**Statement of Revenues, Expenses and Changes in Net Assets**  
**For the Year Ended June 30, 2002**  
(Expressed in Thousands)

Operating revenues:	
Parking garage space rentals.....	\$ 10,303
Interest income.....	2,791
City pledged revenues:	
Parking fines and penalties.....	15,991
Parking meter collections.....	5,236
Other parking income.....	<u>11,722</u>
Total operating revenues.....	<u>46,043</u>
Operating expenses:	
Contractual services.....	5,790
Depreciation.....	1,070
Amortization of bond issuance costs.....	<u>131</u>
Total operating expenses.....	<u>6,991</u>
Operating income.....	<u>39,052</u>
Nonoperating revenues (expenses):	
Gain on sale of investments.....	3
Interest (expense), net.....	<u>(6,553)</u>
Total nonoperating (expenses).....	<u>(6,550)</u>
Income before transfers.....	32,502
Transfers to Baltimore City - general fund.....	<u>(29,925)</u>
Changes in net assets.....	2,577
Total net assets - beginning.....	<u>20,027</u>
Total net assets - ending.....	<u>\$ 22,604</u>

See notes to financial statements.

**CITY OF BALTIMORE**  
**Parking Facilities Fund**  
**Statement of Cash Flows**  
**For the Year Ended June 30, 2002**  
(Expressed in Thousands)

Cash flows from operating activities:	
Receipts from customers.....	\$ 45,868
Payments to suppliers.....	(21,832)
Net cash provided by operating activities.....	<u>24,036</u>
Cash flows from noncapital financing activities:	
Operating transfers out.....	<u>(29,925)</u>
Cash flows from capital and related financing activities:	
Mortgages receivable principal payments.....	1,507
Proceeds from revenue bonds.....	80,770
Principal paid on revenue bonds.....	(3,515)
Interest paid.....	(5,747)
Acquisition and construction of capital assets.....	(10,135)
Changes in restricted assets.....	1,391
Net cash provided by capital and related financing activities.....	<u>64,271</u>
Cash flows from investing activities:	
Interest on investments.....	<u>3</u>
Net increase in cash and cash equivalents.....	58,385
Cash and cash equivalents - beginning of year.....	28,266
Cash and cash equivalents - end of year.....	<u><u>\$ 86,651</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income.....	<u>\$ 39,052</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense.....	1,070
Amortization of bond issuance costs.....	131
Changes in assets and liabilities:	
(Increase) in accounts receivable.....	(175)
(Increase) in bond issuance costs.....	(1,493)
Increase in accounts payable and accrued liabilities.....	152
(Decrease) in accrued interest payable.....	(68)
(Decrease) in due to other funds.....	(14,633)
Total adjustments.....	<u>(15,016)</u>
Net cash provided by operating activities.....	<u><u>\$ 24,036</u></u>

See notes to financial statements.

CITY OF BALTIMORE  
Parking Facilities Fund  
Notes to the Financial Statements

**1. Description of the Fund**

The City of Baltimore Parking Facilities Fund (the Fund) was established to provide funds to finance and refinance the cost of acquisition and construction of certain parking facilities in Baltimore City (City).

These financial statements relate only to the operation of this enterprise fund and are not intended to present the financial position, changes in financial position and cash flows of the City.

**2. Summary of Significant Accounting Policies**

The accounting and financial reporting policies of the Fund conform to accounting principles generally accepted in the United States (GAAP) and reporting standards as promulgated by the Governmental Accounting Standards Board (GASB) for enterprise funds.

The Fund follows FASB Statements and Interpretations issued on or before November 30, 1989, Accounting Principles Board Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements.

*Basis of Accounting*

The financial statements have been prepared on the accrual basis of accounting whereby revenues are recorded at the time they are earned and expenses are recorded when incurred, regardless of when the related cash flows take place. Operating revenues are those that result from the services provided by the Fund; all other revenue is considered non-operating.

*Cash and Cash Equivalents*

Cash and cash equivalents include amounts in demand deposits, as well as short-term investments with a maturity date within three months of the date acquired by the Fund.

*Investments*

Investments with maturities of less than one year from purchase date are reported at cost, which approximates fair value. Other investments are reported at fair value. Securities traded on national exchanges are valued at the last reported sales price.

CITY OF BALTIMORE  
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Notes to the Financial Statements

*Interest*

Interest income includes interest earned on mortgages and is recognized as operating income. Interest expense represents bond interest expense net of investment income.

*Restricted Assets*

Restricted assets consist of resources that are legally obligated for the acquisition and improvement of capital facilities and revenue bond requirements.

*Use of Restricted Assets*

When an expense is incurred for which restricted and unrestricted resources are available to pay the expense, it is the Fund's policy to apply the expense first to restricted resources and then to unrestricted resources.

*Capital Assets*

Purchased or constructed capital assets are reported at historical cost. Capitalization thresholds are \$250,000 for buildings and improvements, and \$5,000 for equipment.

Depreciation is computed using the straight-line method over the estimated useful lives, as follows:

Buildings	50 years
Improvements	20-50 years
Equipment	2-25 years

*Amortization*

Bond issuance costs are amortized over the life of the issue using the straight-line method, the effect of which is not materially different than under the effective interest method. Gains and losses on the early extinguishment of debt are amortized over the shorter of the life of the new or old debt.

**3. Implementation of New Accounting Principles**

Effective July 1, 2001, the City adopted the provisions of GASB Statement No. 34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments*, as modified by GASB Statement No. 37, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments: Omnibus*; and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. These statements affect the manner in which the City records transactions and presents financial information. Accordingly, the

CITY OF BALTIMORE  
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Notes to the Financial Statements

financial statements of the Fund have been prepared in keeping with the provisions of these statements.

**4. Cash Deposits and Investments**

The Fund participates in the City's pooled cash account. At June 30, 2002, the Fund's share of the City's pooled cash account was \$14,249,000. All of the City's pooled cash deposits are either insured by the Federal Deposit Insurance Corporation (FDIC) or collateralized by securities held in the name of the City by the City's agent.

In accordance with State law, the City is authorized to invest in direct or indirect obligations of the U.S. government, certificates of deposit, repurchase agreements and related mutual funds. City policy requires that securities underlying repurchase agreements must have a market value of at least 100% of the cost of the repurchase agreement, and the City takes possession of the securities when the repurchase agreement's maturity is over five days. Management believes the City has complied with this policy throughout the year.

Investments at June 30, 2002 are summarized below. Investments represented by specific identifiable investment securities are classified as to credit risk by the three categories below:

Category 1 – Insured or registered, or securities held by the City or its agent in the City's name.

Category 2 – Uninsured and unregistered, with securities held by the counter-party's trust department or agent in the City's name.

Category 3 – Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the City's name.

The following schedule classifies the investments into the above noted categories:

	<u>(Expressed in Thousands)</u>	
<u>June 30, 2002</u>	<u>Category 1</u>	<u>Carrying Value</u>
U.S. Treasury and Agencies.....	\$ 5,984	\$ 5,984
Bonds.....	<u>4,382</u>	<u>4,382</u>
	<u>\$10,366</u>	10,366
Mutual funds.....		66,274
Certificates of Deposit.....		<u>144</u>
		76,784
Less: cash equivalents.....		<u>72,402</u>
Total.....		<u>\$ 4,382</u>

CITY OF BALTIMORE  
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Notes to the Financial Statements

**5. Mortgages Receivable**

The Fund has mortgages receivable at June 30, 2002 from various parking garage operators of \$43,039,000 collateralized by real property. The notes bear interest at rates ranging from 6.0% to 6.7% and mature over 30 years.

**6. Capital Assets**

Capital Assets and the related accumulated depreciation (amounts expressed in thousands) recorded in the Fund as of June 30, 2002 are as follows:

	Balance June 30, 2001	Additions	Deductions	Balance June 30, 2002
Capital assets not being depreciated:				
Land	\$ 2,375			\$ 2,375
Construction in progress	34,420	\$ 10,242	\$ 107	44,555
Total capital assets not being depreciated	<u>36,795</u>	<u>10,242</u>	<u>107</u>	<u>46,930</u>
Capital assets being depreciated:				
Buildings and Improvements	52,403			52,403
Equipment	538			538
Total capital assets being depreciated	<u>52,941</u>	<u></u>	<u></u>	<u>52,941</u>
Less Accumulated Depreciation for:				
Buildings & Improvements	(10,613)	(1,048)		(11,661)
Equipment	(308)	(21)		(329)
Total accumulated depreciation	<u>(10,921)</u>	<u>(1,069)</u>	<u></u>	<u>(11,990)</u>
Total capital assets being depreciated, net	<u>42,020</u>	<u>(1,069)</u>	<u></u>	<u>40,951</u>
Total capital assets net	<u>\$ 78,815</u>	<u>\$ 9,173</u>	<u>\$ 107</u>	<u>\$ 87,881</u>

At June 30, 2002 the Fund had outstanding commitments for construction of \$424,000.

**7. Revenue Bonds**

The City has issued refunding revenue bonds, the proceeds of which were used to refinance existing debt of the Fund. Assets with a carrying value of \$21,823,000 at June 30, 2002 and certain revenues of the Fund are pledged as collateral for the bonds. Bonds outstanding (amounts expressed in thousands) as of June 30, 2002 consist of:

Series 1992B serial bonds maturing in annual installments from \$475,000 to \$510,000 from July 1, 2002 through July 1, 2003, with interest ranging from 7.75% to .95%, payable semiannually..... \$ 985

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Series 1993A serial bonds maturing in annual installments from \$2,915,000 to \$3,810,000 from July 1, 2002 through July 1, 2008, with interest ranging from 4.05% to 4.7%, payable semiannually.....	23,370
Series 1997B serial bonds maturing in annual installments from \$300,000 to \$495,000 from July 1, 2002 through July 1, 2010, with interest ranging from 6.2% to 6.5%, payable semiannually.....	3,510
Series 2002 serial bonds maturing in annual installments from \$470,000 to \$7,900,000 from July 1, 2003 through July 1, 2032, with interest at variable rates, payable semiannually.....	80,770
Series 1992B term bonds with interest at 8.4%, payable semiannually, due July 1, 2011.....	5,955
Series 1993 term bonds with interest at 5.1%, payable semiannually, due July 1, 2013.....	3,395
Series 1993 term bonds with interest at 5.0%, payable semiannually, due July 1, 2018.....	4,330
Series 1997A term bonds with interest at 5.9%, payable semiannually, due July 1, 2013.....	21,760
Series 1997A term bonds with interest at 6.0%, payable semiannually, due July 1, 2018.....	29,040
Series 1997B term bonds with interest at 6.75%, payable semiannually, due July, 2017.....	4,510
Series 1997B term bonds with interest at 6.625%, payable semiannually, due July 1, 2022.....	4,735
Series 1997B term bonds with interest at 6.625%, payable semiannually, due July 1, 2027.....	6,525
Series 1998A term bonds with interest at 4.9%, payable semiannually, due July 1, 2011.....	175
Series 1998A term bonds with interest at 5.25%, payable semiannually, due July 1, 2014.....	1,770
Series 1998A term bonds with interest at 5.25%, payable semiannually, due July 1, 2017.....	2,060

CITY OF BALTIMORE  
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Series 1998A term bonds with interest at 5.25%, payable semiannually, due July 1, 2021 .....	3,300
	<u>196,190</u>
Less unamortized charges.....	2,536
	<u>\$193,654</u>

Changes in long-term obligations for the year ended June 30, 2002 is as follows (amounts expressed in thousands):

	Balance June 30, 2001	Additions	Reductions	Balance June 30, 2002	Amounts Due Within One Year
Revenue Bonds	\$118,935	\$80,770	\$3,515	\$196,190	
Less: Unamortized charges	<u>3,342</u>		<u>806</u>	<u>2,536</u>	
Total Revenue Bonds Payable	<u>\$115,593</u>	<u>\$80,770</u>	<u>\$2,709</u>	<u>\$193,654</u>	<u>\$3,690</u>

The serial bonds series 1992B are subject to redemption prior to maturity beginning on and after July 1, 2002, at redemption prices ranging from 102% to 100% of the principal amount. The series 1992B term bonds due July 1, 2011, are subject to redemption at par prior to maturity by operation of a mandatory sinking fund on or after July 1, 2004, at annual principal amounts ranging from \$550,000 to \$970,000. The serial bonds series 1993 due July 1, 2004 and July 1, 2005, are subject to redemption prior to maturity beginning on and after July 1, 2003, at redemption prices ranging from 102% to 100% of the principal amount. The series 1993 term bonds due July 1, 2013 and July 1, 2018, are subject to redemption at par prior to maturity by operation of a mandatory sinking fund on or after July 1, 2009, at annual principal amounts ranging from \$615,000 to \$960,000.

The series 1997A term bonds due July 1, 2013, are subject to redemption at par prior to maturity by operation of a sinking fund on or after July 1, 2009, at annual principal amounts ranging from \$3,860,000 to \$4,870,000. The series 1997A term bonds due July 1, 2018, are subject to redemption at par prior to maturity by operation of a sinking fund on or after July 1, 2014, at annual principal amounts ranging from \$5,160,000 to \$6,505,000.

The serial bond series 1997B due July 1, 2010, are subject to redemption prior to maturity beginning on and after July 1, 2007, at redemption prices ranging from 101% to 100% of the principal amount. The series 1997B term bonds due July 1, 2017, are subject to redemption at par prior to maturity by operation of a mandatory sinking fund on or after July 1, 2011, at annual principal amounts ranging from \$525,000 to \$775,000. The series 1997B term bonds due July 1, 2022, are subject to redemption at par prior to maturity by operation of a mandatory sinking fund on or after July 1, 2018, at annual principal amounts

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ranging from \$830,000 to \$1,070,000. The series 1997B term bonds due July 1, 2027, are subject to redemption at par prior to maturity by operation of a mandatory sinking fund on or after July 1, 2023, at annual principal amounts ranging from \$1,145,000 to \$1,475,000.

The series 1998A term bonds due July 1, 2011, are subject to redemption at par prior to maturity by operation of a mandatory sinking fund on or after July 1, 2003, at annual principal amounts ranging from \$15,000 to \$25,000. The series 1998A term bonds due July 1, 2014, are subject to redemption at par prior to maturity by operation of a mandatory sinking fund on or after July 1, 2012, at annual principal amounts ranging from \$560,000 to \$620,000. The series 1998A term bonds due July 1, 2017, are subject to redemption at par prior to maturity by operation of a mandatory sinking fund on or after July 1, 2015, at annual principal amounts ranging from \$650,000 to \$725,000. The series 1998A term bonds due July 1, 2021, are subject to redemption at par prior to maturity by operation of a mandatory sinking fund on or after July 1, 2018, at annual principal amounts ranging from \$760,000 to \$890,000.

On June 25, 2002 the City issued \$80,770,000 in taxable variable rate demand bonds to construct various parking facilities in the City. The bonds mature serially starting on July 1, 2003 through July 1, 2032.

The bonds bear interest at a variable rate that is reset by the Remarketing Agent on a weekly basis. Initially, the Remarketing Agent will use a "Dutch Auction" to set the weekly rate that will be used to remarket the bonds. Under the terms of the indenture, the City at its options may change the bond rate to a monthly or long-term rate at any time until maturity upon notification of the bondholders.

In conjunction with the issuance of the bonds, Dexia Credit Local, New York (Bank) issued a standby purchase agreement (Agreement) in the amount of \$88,174,000 in favor of the City and Allfirst Trust Company National Association as Trustee. The Agreement expires June 27, 2009, but can be extended for additional years. The existing Agreement permits the fiscal agent to draw amounts necessary to pay the principal portion and related accrued interest on the bonds tendered for purchase and not remarketed.

Pursuant to the Agreement between the City and the Bank, the issuer is required to reimburse the Bank the amount drawn upon remarketing or in a lump sum payment, as of June 27, 2009, which ever is earlier. If the takeout agreement were to be exercised because the entire issue of \$80,770,000 of demand bonds was put but not resold, the City would be required to pay approximately \$4,600,000 in interest plus principal payments of approximately \$700,000 per year through 2008 with a lump sum payment of the remaining principal at the end of the agreement. The interest rate on draws made under this agreement is the prime rate plus 1%.

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Parking Facilities Fund  
Notes to the Financial Statements

The City is required to pay the Bank's fee throughout the effectiveness of the Agreement equal to 0.225% per annum of the average daily amount of the available commitment.

During fiscal year 2002, the City made no draws under the Agreement, and no amounts drawn against the Agreement were outstanding at June 30, 2002.

Principal maturities (amounts expressed in thousands) and interest on revenue bonds are as follows:

<u>Year Ending June 30,</u>	<u>Principal Amount</u>	<u>Interest Amount</u>
2003.....	\$ 3,690	\$ 9,140
2004.....	4,355	11,357
2005.....	4,680	11,120
2006.....	4,900	10,862
2007.....	5,330	10,584
2008 – 2012.....	32,665	47,754
2013 – 2017.....	42,205	36,510
2018 – 2022.....	32,170	24,102
2023 – 2027.....	25,220	16,668
2028 – 2032.....	33,075	7,684
2033 – 2037.....	<u>7,900</u>	<u>241</u>
Total .....	<u>\$196,190</u>	<u>\$186,022</u>

## 8. Related Party Transactions

During fiscal year 2002 the Fund transferred \$29,925,000 to the City's General Fund. These transfers represent revenues consisting of parking fines, penalties, meter collections and other parking revenues, which were initially pledged as security for the revenue bonds. The revenues are held by the Fund until such time as it is determined, in accordance with the bond indentures, that the revenues will not be needed to pay current debt service.

Contractual services expenses consist primarily of management fees for the operation of the Fund's parking garages. The cost of collecting pledged revenues and other costs relating to the management of the Fund's operations are borne by the City's General Fund and are not included in the operating expenses of the Fund.